R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 47B
December 14, 1990

IN THIS ISSUE:

Japan's GNP Continues To Expand 1

LDP's Proposed Land Tax Panned 3

Economic Worries Drive Financial Maneuvering 5

Congress Continues Study
Of Japan's Economic Challenge 10

Notes: 777 Project 12

Japan's GNP Continues To Expand

Almost a year ago the Economic Planning Agency said it expected Japan's economy to expand at an inflation-adjusted 4 percent clip over the fiscal year beginning April 1, 1990. In early December EPA reported that the real gross national product grew during the July-September quarter at an annualized 4.1 percent rate (see Table), slightly faster than foreseen in its earlier outlook. Even in the highly unlikely event that the economy were to contract over the two remaining quarters of FY 1990, the projected 4 percent figure would be achieved. Yet nearly all Japanese analysts reacted glumly to the latest GNP figures. (All the figures in the table reflect EPA's recent switch from 1980 to 1985 as the base year for calculating real GNP. As such, they are not strictly comparable with figures reported earlier.)

Part of the reason for the sour looks on analysts' faces was that they had expected far better a few months ago. During the summer, for example, the Japan Economic Research Center had forecast that price-adjusted growth during the July-September quarter would exceed 10 percent annualized. Even JERC's scaled-back November estimate of 6.6 percent was far above the rate actually recorded.

Japan's Real Gross National Product at Constant (1985) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1988	FY 1989	October-December 1989	January-March 1990	April-June 1990	July-September 1990
Gross National Product	Y370,354.3 (5.9%)	Y388,245.8 (4.8%)	Y391,200.9 (5.4%)	Y397,491.7 (6.6%)	Y402,877.4 (5.5%)	Y406,944.6 (4.1%)
Personal Consumption Spending	216,681.4 (5.5%)	225,538.8 (4.1%)	228,793.4 (8.2%)	229,536.8 (1.3%)	233,094.6 (6.3%)	233,921.7 (1.4%)
Private Residential Construction	21,565.5 (4.8%)	21,712.5 (0.7%)	21,785.9 (3.5%)	22,080.3 (5.5%)	23,238.8 (22.7%)	24,628.8 (26.2%)
Private Fixed Nonresidential Investment	69,194.8 (16.6%)	78,954.0 (14.1%)	80,529.8 (15.9%)	83,429.0 (15.2%)	85,923.6 (12.5%)	87,439.7 (7.2%)
Change in Business Inventories	3,199.4 (*)	3,616.1 (*)	3,961.4 (*)	2,180.7 (*)	3,348.8 (*)	2,924.3 (*)
Government Current Expenditures	33,023.6 (2.2%)	33,651.5 (1.9%)	33,646.9 (2.3%)	33,901.9 (3.1%)	33,902.0 (0.0%)	33,928.1 (0.3%)
Government Fixed Investment	25,031.0 (0.5%)	25,270.4 (1.0%)	25,294.9 (5.3%)	25,697.3 (6.5%)	25,958.5 (4.1%)	25,983.2 (0.4%)
Change in Government Inventories	-227.9 (*)	-55.5 (*)	-721.0 (*)	203.4 (*)	433.5 (*)	603.0 (*)
Net External Sector	1,886.4 (-67.8%)	-441.8 (-123.4%)	-2,090.4 (*)	462.3 (*)	-3,022.4 (*)	-2,484.2 (*)
Exports of Goods and Services and Factor Income Received	59,309.1 (12.2%)	68,576.2 (15.6%)	68,979.3 (13.0%)	73,638.6 (29.9%)	74,052.7 (2.3%)	70,549.2 (-17.6%)
Imports of Goods and Services and Factor Income Paid	57,422.7 (22.2%)	69,018.0 (20.2%)	71,069.7 (30.2%)	73,176.3 (12.4%)	77,075.1 (23.1%)	73,033.4 (-19.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

More worrisome than old forecasts gone awry was what the numbers said about the future. According to the conventional Japanese view, the economy has been sustained by the twin pillars of consumer spending and investment in plant and equipment; these offset the drag exerted by falling real net exports. During the latest quarter net exports changed little, suggesting that the period ought to have been a strong one. The economy ended up weaker than expected, however, because the twin pillars looked a little shaky. Consumer spending inched ahead at a 1.4 percent annualized rate. Capital spending, up 7.2 percent on an annual basis, grew much more slowly than in other recent quarters but still accounted for 0.4 percentage point of the 1 point quarter-to-quarter gain.

Consumer spending as well as plant and equipment investment could look worse in coming months. The most recent available data on department store sales, an admittedly imperfect measure of consumer sentiment, showed a much slower rise on a year-to-year basis in October than in the previous three months, exceeding the rate of inflation by a narrow margin; that suggests overall consumer sentiment still may be weakening. Plant and equipment spending, which depends in part on interest rates and expected future sales, may not fare much better; rates generally rose during the July-September quarter but barely affected the level of investment, given the long lead times involved. However, one leading indicator of future trends, machinery orders, increased 4.7 percent in October over a year earlier, well below the double-digit gains registered in most of 1990; this suggests to analysts that future capital spending, particularly by small businesses, may be comparatively weak in FY 1991.

Private residential construction, up an annualized 26.2 percent, shared top billing with plant and equipment investment as a source of economic expansion in the latest period, adding 0.3 point to the quarterly growth rate. Continuing high interest rates are likely to slow housing starts in coming months, however. Government spending on a GNP basis, flat in the third quarter, is unlikely to rise significantly in the near future. In short, all the major components of domestic demand look comparatively weak over the next few months; should the external sector remain a drag on the economy, overall growth could be anemic.

For these reasons many Japanese analysts now question whether the current expansion, which began in late 1986, will establish a new postwar record for duration. (The old mark of 57 months was set in July 1970.) To do so would require, in EPA's judgment, that a sufficiently large number of economic indicators look positive as of September 1991. Since, by EPA standards, the indicators -- and not the change in the GNP figures -- determine whether or not an expansion is at an end, even a still rising GNP may not be enough to guarantee a positive EPA judgment. Most private forecasters now anticipate real economic growth of between 3 and 4 percent in FY 1991, healthy growth by American standards but probably barely enough for the economy to limp its way to a new record.

Douglas Ostrom

LDP's Proposed Land Tax Panned

The ruling Liberal Democratic Party introduced its version of a new national land-holding tax December 6 and immediately drew criticism from all

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Entire Issue